

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Annual Compliance Report, 2017

Docket No. ACR2017

CHAIRMAN'S INFORMATION REQUEST NO. 8

(Issued January 23, 2018)

To clarify the basis of the Postal Service's FY 2017 Annual Compliance Report (ACR), filed December 29, 2017,<sup>1</sup> the Postal Service is requested to provide written responses to the following questions. Answers should be provided to the individual questions as soon as they are developed, but no later than January 29, 2018.

1. On page 20 of its 2017 Report on Form 10-K, the Postal Service stated: "To accommodate the surge in volume and to avoid service disruptions during the holiday season, we have increased Sunday delivery service for some of our customers in limited U.S. markets and are again adding employees for the holiday season."<sup>2</sup>
  - a. Please identify the annual costs from Sunday delivery service that the Postal Service experienced in FY 2016 and FY 2017, or indicate where these costs are broken out in the ACR data.

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<sup>1</sup> United States Postal Service FY 2017 Annual Compliance Report, December 29, 2017.

<sup>2</sup> United States Postal Service, 2017 Report on Form 10-K, November 14, 2017, at 20 (2017 Form 10-K Report).

- b. In each of those years, please identify the share of Sunday delivery costs that are classified as negotiated service agreement costs versus those that accrue to general delivery operations.
  - c. What portion of any increase in these costs that occurred between FY 2016 and FY 2017 was attributable to competitive products?
- 2. On page 24 of the Postal Service's 2017 Form 10-K Report, the Postal Service reported that the number of total employees increased 22,000, or 3.5 percent, between 2015 and 2017. The Postal Service stated that this increase was, at least in part, "the result of an increase in career employees needed to support the continuing growth in our Shipping and Packages business, primarily Sunday deliveries, and the continuing growth in the number of delivery points." *Id.* at 24.
  - a. What percentage of the increase in employees was attributable to competitive products?
  - b. What percentage of the increase in employees was treated as institutional?
- 3. On page 34 of the Postal Service's 2017 Form 10-K Report, the Postal Service reported that highway and air transportation expenses increased approximately 12 percent and 15 percent, respectively, from 2015 to 2017 due, at least in part, "to volume growth in our Shipping and Packages business and our strategic efforts to continue to improve our delivery service results."
  - a. How much of the increase in costs was institutional versus attributable?
  - b. Of the attributable costs, how much was attributed to competitive products?
- 4. On page 37 of its 2017 Form 10-K Report, the Postal Service stated: "We purchased approximately 9,000 new vehicles to add to our fleet during the year ended September 30, 2017. Additionally, we are investing in upgrades of letter sorting equipment that is at or near the end of its useful life, and also investing in

sorting and handling equipment to fully capitalize on business opportunities in the growing package delivery market.”

- a. Please provide an inventory of the type, including cubic footage, and intended purpose, of the 9,000 vehicles purchased in FY 2017.
  - b. Please describe how the depreciation associated with these new vehicles (as opposed to the entire fleet, which is summarized in 20.2) is attributed to products. Specifically, what share is attributed to market dominant products, what share is attributed to competitive products, and what share is treated as institutional?
5. Please refer to Library Reference USPS-FY17-39, December 29, 2017 (FY 2017 Competitive Products Fund Reporting Materials).
  - a. Please refer to Excel file “FY17-CP02.xlsx.” Please define what constitutes a “financial obligation” or “investment” for competitive products, and please explain why there were no financial obligations or investments for the competitive products, when on pages 37-38 of the Postal Service’s 2017 Form 10-K Report, the Postal Service stated it is “also investing in sorting and handling equipment to fully capitalize on business opportunities in the growing package delivery market.”
  - b. Please refer to Excel file “FY17-CP03.xlsx.” Please confirm that the assets listed on this spreadsheet (one shredder and three microcomputer systems, whose costs total less than \$55,000, with a net book value of less than \$1,200) are the only assets identified by the Postal Service as specifically belonging to the “theoretical competitive products enterprise.” See 39 C.F.R. § 3060.14. If not confirmed, please explain.
  - c. Please confirm that the purpose of Excel file “FY17-CP04.xlsx” is to report on the allocation of Postal Service assets and liabilities that cannot be assigned to a single product or group of products to competitive products,

- pursuant to 39 C.F.R. sections 3060.14 and 3060.20-23. If not confirmed, please describe the purpose of Excel file "FY17-CP04.xlsx."
- d. Excel file "FY17-CP04.xlsx" references a file named "Balance Sheets Analysis Final-September 2017.xlsx" from which many of the figures (e.g., "Equipment" and "Construction in Progress") are taken. Is this file produced anywhere in Docket No. ACR2017?
  - e. Are the individual assets underlying the line items in the "FY17-CP04.xlsx" spreadsheet (e.g., "Buildings," "Equipment," and "Construction in Progress") itemized at a more granular level anywhere in Docket No. ACR2017 or other public or non-public Postal Service materials? If not, please explain.
6. The Rule 39 C.F.R. Section 3050.60(f) Report for Fiscal Year 2016 describes product-specific delivery activities (cost segment 7.2.2, in the file "CS07-16.docx") as "product specific costs for Domestic Competitive products and International products." Please describe, from an operational standpoint, what is meant by "product-specific delivery activities." Are these costs accrued on delivery runs where only a single is product is delivered? If not, please elaborate, and include a description of how these costs are identified.
7. Please refer to Library Reference USPS-FY17-31, December 29, 2017 (CRA Model). In column D of "USPS-FY17-31\CRA Report Files\FY17Public.DRpt.xlsx," there is a series of "Final Adjustments" to attributed costs totaling \$1.5 billion. For example, the volume-variable and product-specific costs for Post Office Box Service are adjusted downwards by more than \$376 million, while total domestic competitive costs are increased by more than \$700 million. Please describe in detail the nature and reason for these changes, and provide any public or non-public documents that summarize these adjustments.

8. Please refer to Docket No. ACR2016, Library Reference USPS-FY16-37, December 29, 2016. Several datasets are compiled and manipulated in SAS and JCL to produce the public IOCS dataset “USPS-FY16-37\Data\PRCPub16.sas7bdat.”
  - a. Are all of the inputs needed to run the SAS code in “USPSFY16-37\SASPrograms” provided?
    - i. In particular, are the “IOCS Tally Data” mentioned in the USPS-FY16-37 Preface<sup>3</sup> input provided in USPS-FY16-37?<sup>4</sup> If it is provided, please specify the filename(s) containing these data. If not, please explain why these data are not provided.
    - ii. Please specify the filename(s) or location of any other inputs that are mentioned in the USPS-FY16-37 Preface<sup>5</sup> as an input to the SAS programs, but that do not appear to exist in the USPS-FY16-37 directory, such as “Periodicals data” and “Zip Code to County mapping.”
9. Please describe how data are extracted from the CODES system and processed before being used in the:
  - a. In-Office Costing System (USPS-FY16-37),
  - b. City Carrier Costing System (USPS-FY16-34), and
  - c. Rural Carrier Costing System (USPS-FY16-35).

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<sup>3</sup> See the “Program Documentation” section of the IOCS documentation provided in USPS-FY16-37, file “USPS-FY16-37.pdf,” at 9.

<sup>4</sup> This input appears to be referred to as “IOCSIN” in the JCL and SAS files.

<sup>5</sup> See the “Program Documentation” section of the IOCS documentation provided in USPS-FY16-37, file “USPS-FY16-37.pdf,” at 9-12.

10. In the CCCS documentation, the Postal Service states that monthly datasets<sup>6</sup> are concatenated to form quarterly volume files using SAS file “ALD299 (SPR299 for CCCS-SPR).” Are these validated monthly datasets provided as part of the ACR2017 filing? If so, please specify the filename(s) or location of these or any other inputs used in the calculation of the quarterly Z file.<sup>7</sup>
11. Please refer to Library Reference USPS-FY17-32, December 29, 2017, and specifically to the “Input DK” tab of Excel file “CS06&7-Public-FY17.xlsx.”
  - a. What is the relationship, if any, between columns (2)-(8) and column (1), which represents RPW volume?
  - b. Are the volumes reported in columns (2)-(8) directly comparable to one another?
  - c. Is it possible to calculate or estimate the share of the volume of an individual product (e.g., Single-Piece Letters) delivered on city carrier letter routes that is comprised of individual mail streams (e.g., DPS letters)?
12. Please refer to Library Reference USPS-FY17-32, and specifically to the “Inputs DK” tab of Excel file “CS10-Public-FY17.xlsx.”
  - a. What is the relationship, if any, between columns (2)-(8) and column (1), which represents RPW volume?
  - b. Are the volumes reported in columns (2)-(8) directly comparable to one another?

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<sup>6</sup> These validated monthly files are in the format ALDRAN.SHAPE.CCS16mm. See section III.E of the CCCS Documentation provided in Docket No. ACR2016, USPS-FY16-34, December 29, 2016, file “USPS-FY17-34\_CCCS\_Preface.pdf,” at 9.

<sup>7</sup> See Section III.E of the CCCS Documentation provided in USPS-FY16-34, file “USPS-FY17-34\_CCCS\_Preface.pdf,” at 12-13.

- c. Is it possible to calculate or estimate the share of the volume of an individual product (e.g., Single-Piece Letters) delivered on rural carrier routes that is comprised of individual mail streams (e.g., DPS/SS)?
- 13. Is it possible using Postal Service data to estimate the share of volume of a given product that is delivered via city carrier delivery, as opposed to rural carrier delivery? If so, please provide those proportions for each product for each quarter in FY 2017 and provide documentation of the calculation of those proportions.
- 14. For each product that is delivered by city carriers, is it possible using Postal Service data to calculate or estimate the share of the volume of that product that is delivered via special purpose routes? If so, please provide the share of city carrier-delivered volume for each product that is delivered on:
  - a. regular letter routes and
  - b. special purpose routes, and explain how this is calculated.
- 15. In several recent filings, the Postal Service stated that carrier time needed to perform second runs, where a city carrier's route must be traversed a second time in order to deliver overflow volume, is typically clocked to letter routes (as opposed to special purpose routes), as long as the second run is confined to the carrier's regular route.<sup>8</sup>
  - a. Does the Postal Service maintain any data regarding the share of time or costs clocked to letter routes that is spent on such supplemental runs? If so, please describe and produce those data.
  - b. Please describe any seasonal variation in the relative prevalence of these supplemental runs over the course of the year.

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<sup>8</sup> See, e.g., Docket No. RM2017-9, Responses of the United States Postal Service to Questions 1-15, 19-20, and 23 of Chairman's Information Request No. 1, August 9, 2017, questions 15(a) and 15(b).

- c. Does Form 3999 record whether on the route-day on which a route evaluation was conducted a supplemental run was required? If a supplemental run is required, is the time required to conduct that run included in the times reported for the evaluation?
- d. Please confirm that on the ZIP Code days used in the City Carrier special study in Docket No. RM2015-7 no second runs were necessary. If not confirmed, please indicate how many ZIP Code days necessitated additional runs, and describe how the time associated with those second runs was handled in the study. If unknown, please so state.
- e. Does the Postal Service maintain any data that provide some indication of how the mix of mailstreams (shapes) or products delivered on route days requiring such second runs varies from the mix of mailstreams (shapes) or products delivered on route days not requiring a second run?

By the Chairman.

Robert G. Taub